



**Alibaba Group**  
**September Quarter 2021**  
**Results Conference Call**  
**Transcript**

Thursday, 18th November 2021

## Introduction

Rob Lin

*Head of Investor Relations, Alibaba Group*

(Original)

Good day everyone, and welcome to Alibaba Group's September Quarter 2021 Results Conference Call. With us today are Daniel Zhang, Chairman and CEO; Joe Tsai, Executive Vice Chairman; Maggie Wu, Chief Financial Officer. This call is also being webcast from the IR section of our corporate website. A replay of the call will be available on our website later today.

Now, let me quickly go over the safe harbour. Today's discussion may contain forward looking statements. Forward-looking statements involve inherent risks and uncertainties that may cause actual results to differ materially from our current expectations. For detailed discussion of these risks and uncertainties, please refer to our latest Annual Report on Form 20F and other documents filed with the US SEC or announced on the website of Hong Kong Stock Exchange. Any forward-looking statements that we make on this call are based on assumptions as of today and we do not undertake any obligations to update these statements except as required under applicable law.

Please note that certain measures that we use on this call such as adjusted EBITDA, adjusted EBITDA margin, adjusted EBITA, adjusted EBITA margin, Commerce adjusted EBITA before key strategic investments, non-GAAP net income, non-GAAP diluted earnings per share or ADS and free cash flow are expressed on a non-GAAP basis. Our GAAP results and reconciliation of the GAAP to non-GAAP measure can be found on our earnings press release. Unless otherwise stated, growth rates of all stated metrics mentioned during the call refer to year-over-year growth versus the same quarter last year.

In addition, during today's call management will give their prepared remarks in English. A third-party translator will provide simultaneous translation in Chinese on another conference line. Please refer to our press release for details.

During the Q&A session, we will take questions in both English and Chinese and a third-party translator will provide consecutive translation. All translations are for convenience purposes only. In the case of any discrepancies, management statements in the original language will prevail.

With that, I will now turn the call over to Daniel.

## September Quarter 2021 Highlights

Daniel Zhang

*Chairman & CEO, Alibaba Group*

(Original)

Thank you, Rob, hello everyone. Thanks for joining our earnings call today. In the past quarter, Alibaba continued to firmly invest into our three strategic pillars of domestic consumption, globalization, cloud computing and data intelligence. We believe this will establish solid foundations of our long-term goal of sustainable growth in the future.

Some context on the China macro environment before I share our business updates. In September quarter China's GDP and consumption continued to grow but slower than the previous quarters. Overall retail sales for the quarter increased 5% year-over-year. Online retail of physical goods rose 8% year-over-year compared to the 19% during the same period last year<sup>1</sup>. Offline retail has only just returned to the same level as two years ago. These economic headwinds, coupled by intensifying market competition, also affected our core commerce business in China. In line with industry retail trends in China physical goods GMV year-over-year growth rate moderated to a single digit this quarter, mainly due to a slowdown in apparel and the general merchandise categories. That said, growth rates of consumer electronics and home furnishing categories remain resilient.

In the challenging macro environment, we continued to invest in user acquisition and have seen promising progress in low-tier cities, which I will elaborate on later. Our global annual active consumers reached approximately 1.24 billion, which is a net increase of 62 million quarter-over-quarter and a 20% growth year-over-year this past quarter<sup>2</sup>. Our AAC grew to 953 million in China and 285 million overseas. We are on track to deliver the one billion China AAC target by the end of this fiscal year, and we remain firmly committed to achieving our long-term target to serve two billion consumers globally.

Let me turn to our long-term investment strategies. In less developed areas across China, Taobao Deals has contributed incremental growth to our overall user base, and stimulated more user activity and engagement in our China consumer ecosystem. Taobao Deals AAC surpassed 240 million this past quarter. Close to half of Taobao Deals daily active users are unique incremental users in addition to Taobao app DAUs. Consumers are attracted by the value-for-money products and differentiated user experience offered by Taobao Deals. At the same time, manufacturers take advantage of its one-stop full-service solution that includes online store operation and fulfillment to sell directly to end consumers. We call this solution "M2C" or

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<sup>1</sup> In the September quarter, China's "Online retail of physical goods rose 9% year-over-year compared to the 16% during the same period last year" was mistakenly stated as "Online retail of physical goods rose 8% year-over-year compared to the 19% during the same period last year" on the call.

<sup>2</sup> "Net increase of approximately 62 million" was stated as "net increase of 62 million" on the call.

“manufacturers-to-consumers.” During this past quarter, Taobao Deals’ M2C orders grew nearly 400% year-over-year.

For our Community Marketplaces business Taocaicai, we continued to focus on investing in and building a new digitalized community commerce model that is sustainable and healthy. Taocaicai has expanded operations to close to 200 cities, and its GMV growth surpassed 150% quarter-over-quarter. We are deliberate in our approach and faithful to our belief in true value creation, rather than blind pursuit of unqualified and unsustainable growth. We are instead focused on leveraging core capabilities that Alibaba has built over the years in the supply chain, logistics, user engagement and channel development. We aim to grow a new digitalized social commerce infrastructure that offers consumers quality service and products with highly competitive pricing. Consumer survey results have shown that product quality is the top deciding factor for consumers to choose Taocaicai over other platforms. Taocaicai has contributed to increasing the purchase frequency of our core commerce consumers. More than 50% of Taocaicai users were first-time buyers of fresh produce on our China Retail Marketplaces. We believe the ultimate value proposition of the community commerce infrastructure is in our ability to elevate the quality of routine everyday services in local communities. It ranges from guaranteeing supplies during pandemic lockdowns, supporting local farmers to sell high-quality produce, vocational training and job creation. We will continue to enhance these services to create value for our communities.

In local services, we are creating a product and service matrix centered around synergies between Eleme, Amap, and Fliggy. Eleme and Amap are positioned as our two main user entry points for home-bound and destination-bound local services, respectively. Eleme delivered 28% growth in AACs and 30% growth in order volume year-over-year, with non-meal delivery order growth outpacing total order growth this past quarter. In addition to map navigation services, Amap has been expanding into service offerings around users' journeys and destinations, such as ride hailing, hotel booking, etc. During the quarter, transacting users of these destination services on Amap increased more than 200% year-over-year. Although the recent resurgence of COVID-19 in parts of China impacted stability in the supply of hotel rooms and travel products in many provinces, we see the positive contribution in user value from adding Fliggy product supply to Amap and our other user platforms.

We just celebrated our 13th 11.11 Global Shopping Festival with a record GMV of RMB54.03<sup>3</sup> billion (excluding unpaid orders), representing a year-over-year growth rate of 8.5% for the 11-day campaign. The stable and healthy growth off the high base from last year reflects China's consumption power and economic resilience. Looking forward, we remain confident in the development of China's consumption. Today we already have the largest and the most valuable consumer base in China, with 953 million AACs which are still growing. At the same time, we will serve our large and diverse consumer population through user segmentation, addressing different needs and use cases through an assortment of apps with differentiated value propositions. Further through cross-selling of products and services, we will increase our user stickiness, wallet share, and overall retail penetration.

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<sup>3</sup> “GMV of RMB540.3 billion” was mistakenly stated as “GMV of RMB54.03 billion”.

Outside of China, we continued healthy expansion of our user base and revenues, achieving 285 million AACs and 33%<sup>4</sup> revenue growth during the quarter. In Southeast Asia, Lazada produced 82% order growth year-over-year during the quarter, with triple-digit growth in Thailand, Vietnam, and Malaysia. Trendyol, the largest e-commerce platform in Turkey, delivered GMV growth of over 80% year-over-year. AliExpress GMV growth decelerated this quarter due to the negative impact of new VAT rules in Europe and the gradual recovery of the local supply chain and consumption in its destination markets. Looking ahead, AliExpress will further invest in expanding local operations in its strategic markets in Europe.

For our logistics business, Cainiao Post has achieved coverage in over 200 cities as of the end of September. They have become our stations for consumer services in more than 100<sup>5</sup> counties and towns across less developed areas. The daily average package volume delivered to Cainiao Posts increased nearly 70% year-over-year to 69 million during the quarter. In the domestic supply chain business, Cainiao's fulfillment volume for Taobao Deals' M2C business increased by more than 200% year-over-year. As part of its global logistic network expansion, Cainiao launched new initiatives to improve the user experience for international consumers by introducing self-pickup lockers in Russia, Spain, France and Poland while continuing to enhance its cross-border end-to-end logistics capabilities.

Last but not least, Alibaba Cloud delivered revenue growth of 33% year-over-year this past quarter, driven by strong revenue growth from customers in the Internet, financial services and retail sectors. In October, we held our 13th Apsara Conference, which is now the biggest technology conference in China by attendees. We unveiled several new proprietary products and technology upgrades, including Yitian 710 Server Chip, the X-Dragon Architecture, Panjiu cloud-native server series, Alibaba AI+Big Data platform, and a new generation of PolarDB database. These show that Alibaba Cloud is benchmarking against the world's top cloud computing technologies and a milestone in its proprietary product capabilities in IAAS and PAAS.

In September, we announced ten initiatives and pledged to invest RMB 100 billion by 2025 to advance scientific and technological innovation, economic development, high-quality employment, and vulnerable group support in China. We believe these four areas are among the common focus of all responsible companies in the world under the ESG framework. We will incorporate these ten initiatives into the social responsibility pillar of our ESG strategy and hope that our digital commerce and technology ecosystem can contribute our part in these areas.

Looking ahead, we will continue to invest heavily into our three growth engines of domestic consumption, globalization, cloud computing and data intelligence, as we announced at the beginning of our fiscal year. In core commerce, we have started to see encouraging initial results of our investment in lower-tier cities, local services, and logistics in the form of user growth and enhanced logistic capabilities. Our investment in globalization has also delivered progress in user base, consumption and revenue growth. In cloud computing and data

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<sup>4</sup> "34% revenue growth during the quarter" was mistakenly stated as "33% revenue growth during the quarter".

<sup>5</sup> "More than 1,000 counties and towns" was mistakenly stated as "more than 100 counties and towns".

intelligence, we will strengthen our market leadership by further enhancing our core product and technology capabilities. No matter the challenges in the current macroeconomic environment, and with more and more players entering the industry, we remain very confident in our business strategy and our future. We will continue to focus on capacity building, value creation, and a multi-engine approach to growth. We firmly believe our strategy and perseverance will bring mid to long-term returns to our customers and investors.

Now, I will turn it over to Maggie, who will walk you through the details of our financial results.

## **Financial Highlights**

Maggie Wu

*CFO, Alibaba Group*

(Original)

Thank you, Daniel. Let me share some high-level thoughts on our financial results first. Our revenue growth continues to be strong and our revenue are becoming more diversified, so overall we grew revenue by 29% year-over-year to RMB200 billion. Revenue of our International Commerce business and Cloud Computing exhibited robust growth of 34% and 33% respectively.

Our adjusted EBITA was RMB28 billion, but our core profitability before investments in key strategic areas remains very significant and stable at about RMB52 billion. So I will talk about our investment areas later. The decline of RMB13.2 billion year-over-year in total adjusted EBITA is a result of our investment in strategic areas and merchant support. We have one of the most diversified and loyal customer bases in China, and we believe these investments will further strengthen our position. And our overseas investments will also help us gain market share in many international markets in the future.

So here we provide a revenue breakdown by segment, where you can see that Alibaba has evolved into a multi-engine growth company with businesses across different runways, and our growth and revenue continue to be more and more diversified.

Now, let us look at our overall cost trends, excluding SBC as a percentage of revenue. Cost of revenue ratio increased in September quarter due to a higher proportion of our direct sales business, mainly from the consolidation of Sun Art. This direct sales business will continue to strengthen our retail initiatives, especially in the development of our product sourcing capabilities. For example, our Community Marketplace business continued to grow rapidly, which is partly thanks to the strong procurement and supply chain capability in perishables, FMCG and general merchandise categories of Sun Art. Sales and marketing ratio also increased in September quarter due to an increase in marketing and promotional spending for user acquisition and engagement for our mobile commerce businesses, such as Taobao Deals, Lazada, Ele.me and also Taocaicai. G&A expense remained stable at 4%, compared to same quarter last year.

Now, let us look at our profitability and areas of investment. Commerce adjusted EBITA before key strategic investments was largely flat at RMB52 billion, primarily reflecting our support to

merchants as well as the increased spending in user acquisition and engagement on our marketplaces. So excluding our merchant support programme spending, the growth of Commerce-adjusted EBITA before key strategic investments was similar to that of our CMR revenue growth, suggesting a relatively stable EBITA margin of our China retail marketplace. Adjusted EBITA decreased by RMB13.2 billion. The decline primarily reflects RMB12.6 billion year-over-year increase in combined losses of key strategic areas such as Taobao Deals, Local Consumer Services, Community Marketplaces and Lazada, within commerce.

Let us take a closer look at the business progress, revenue and profitability of our business segments during the quarter. First on our commerce segment. Revenue from our commerce segment in the quarter was RMB171 billion, 31% year-on-year growth. Revenue of China commerce business showing 14% year-on-year growth, excluding Sun Art consolidation, and CMR is growing 3%. There are two key reasons for this slower growth of CMR. First, our CMR growth was primarily tied to single-digit physical goods GMV growth that resulted from slowing market conditions and more players entered into this sector, the China e-commerce market. China's NBS statistics have shown a slowdown of overall consumption. We experienced a larger impact, given our position as the largest e-commerce player in China.

Secondly, CMR growth was slower than physical goods GMV growth primarily due to the incremental year-on-year increase in merchant support and subsidies.

Revenue of international commerce grew 34% year-over-year, with continued strength of both international wholesale and international retail businesses, such as Lazada, Alibaba.com, AliExpress and Trendyol. Commerce adjusted EBITA decreased by RMB12.7 billion. The decrease reflected increased investment in those strategic initiatives.

Now, these initiatives we invested within commerce. As noted, we are investing in growth businesses that strengthen consumer experience, enhance loyalty, penetrate into less-developed areas in China and further expand our presence internationally. So during the quarter, the businesses all show robust growth. Taobao Deals and Taocaicai continue to penetrate into less-developed markets of China and they expand our addressable market. Taobao Deals achieved 240 million<sup>6</sup> AAC, up 49 million<sup>7</sup>, Taocaicai grew GMV by over 150% QoQ. As a reminder, our Community Marketplace business started early this year. Ele.me continues to deliver strong, order growth of 30%<sup>8</sup> year-over-year and it is one of the main consumer gateways for our local service business with high-frequency purchasing intent. Lazada and Trendyol continue to generate robust growth in new international markets. Lazada orders grew 82%<sup>9</sup> year-over-year, Trendyol GMV grew over 80% year-on-year.

Let us take a look at the Cloud Computing business. AliCloud's revenue grew 33% year on year to RMB20 billion during this quarter, which reaccelerated compared to the June quarter growth. We saw strong revenue growth from customers in Internet, financial services and retail

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<sup>6</sup> "Over 240 million AAC" was stated as "240 million AAC".

<sup>7</sup> "Up approximately 49 million" was stated as "up 49 million".

<sup>8</sup> "Order growth of over 30% year-over-year" was stated as "order growth of 30% year-over-year".

<sup>9</sup> "Over 82% year-over-year" was stated as "82% year-over-year".

industries. AliCloud generated an adjusted EBITA of 396 million given strong revenue growth and economy of scale.

Next, our DME business during the quarter was RMB 8 billion in revenue, and if you look at the losses, they slightly increased year over year because the investment in content etc. But overall, it continued to narrow in losses in the first half of the fiscal year.

Income Statement: Selected Financial Metrics. Let us review some of these line items. Interest and investment income was a loss of 11 billion in September quarter primarily due to net losses arising from changes in market prices of our equity investments in publicly traded companies in the quarter. This is compared to net gains in the same quarter of 2020. Income tax expense in the quarter were 6.1 billion compared to 1.9 billion in the same quarter of last year. In the same quarter of last year, tax expenses reduced by approximately 6 billion because during that quarter certain subsidiaries were officially notified that they were approved as key software enterprise status for calendar year 2019, which entitled them to a reduced tax rate of 10%.

Share of results of the equity method investees was 5.5 billion during the quarter.

Here we show GAAP and non-GAAP net income attributable to shareholders. Besides the reasons we discussed above, the year over year decrease was also due to losses arising from the changes in market prices of our equity investment in publicly traded companies.

September quarter free cash flow. We continued to have a strong net cash position. As of the end of the quarter our cash, cash equivalents and short-term investments were RMB443 billion, which is approximately US\$69 billion. Free cash flow was RMB22 billion. The decline was driven by a decrease in profits.

Before we go into Q&A, I would like to provide some perspective on our financial outlook. Over the last six months we have observed softer market conditions with slowing consumption growth in China. Given our slower than expected domestic consumption growth since we provided our revenue guidance in May, we now expect our fiscal 2022 revenue growth to be 20 to 23% year over year. The adjustment primarily reflects lowering of our commerce revenues that include both direct sales and customer management revenue.

Let me share with you a bit more on our investment and profitability. So firstly, in China, we are seeing more players entering to the e-commerce industry. Our peers are increasing investments to acquire users, and most of them continue to show a high level of spending. We will continue to invest in our ecommerce business that creates value for consumers and merchants, and our keep our market leadership position. And then for the competitive strength in longer term.

Secondly, we believe our local service business still have important long-term potential. These businesses have generated strong transaction growth and high user retention rates, setting strong foundation to compete for the long term. We are seeing robust GMV and user growth in our international commerce business. These businesses, Lazada, Trendyol, Ali Express, are exhibiting robust growth driven by localization strategy, as well as our ongoing investment in building technology and logistics capabilities.

Lastly, we continue to expect exciting growth opportunities for our cloud business that will benefit from digitization in the industrial internet era.



Given our significant profit generation and our strong balance sheet, we believe it is important to grow and expand into new addressable markets, for the long term, despite near term weakness in domestic macro environment.

As such, we will continuously invest into the above-mentioned areas, and we will report to you the business development progress down the road. We believe these businesses will continue to increase consumer mindshare and wallet share that will be important to our long-term growth and value.

Lastly before we go to Q&A, we would like to inform you that we will be hosting an investor day on 16th and 17th December. During the event, our Senior Management team will provide you an update on Alibaba's key businesses and our vision for the future. Over the last several quarters, investors and analysts have communicated their desire to understand better on how we manage the success of our growth businesses mentioned and these businesses' long-term prospects. This investor day will be our opportunity to provide you with more details and insights. Now let us open the floor for Q&A.

## Q&A

**Rob Lin:**

**(Original)**

Hi everyone. For today's call, you are welcome to ask questions in Chinese or English. A third-party translator will provide consecutive interpretation for the Q&A session. And our management will address your questions in the language you asked. Please know that the translation is for convenience purposes only. In the case of any discrepancy, our management's statement in the original language will prevail.

**Thomas Chong (Jefferies):**

**(Original)**

Yeah, good evening. Thanks management for taking my questions. I have a question regarding our new initiatives. Given that Taocaicai, Taobao Deals, the results are doing very good and we are seeing Taobao Deals AAC already surpassing 240 million, so I want to get a sense regarding our new initiatives. When should we expect the monetization to ramp up? And on the other hand, over the long run, how should we think about the revenue scale of these new initiatives versus our existing businesses?

And as a second question, regarding connectivity, given that it has been quite a while after we have been cooperating with our peers on connectivity, just want to get a sense about any latest progress or the monetization potential that can be shared. Thank you.

**Daniel Zhang:**

**(Original)**

Okay, let me answer the questions one by one. For the first one, I think today our priority for Taobao Deals and Taocaicai is still to build a right infrastructure in terms of the manufacturer-to-consumer model in Taobao Deals, as well as a hyperlocal community marketplace infrastructure. So I think these are our priorities.

And in terms of user engagement we see very, very strong user engagement in the past quarters. As you can see, the AAC for Taobao Deals reached 240 million, and for Taocaicai, because this is more like an additional service on top of mobile app and Taobao Deals, which also shows a very good, I mean, user conversion to the fresh produce and the food categories. So we are very confident that if we can provide value to the consumers as well as the manufacturers and the suppliers of the – from the farmers, and we believe that we can find a very – we can generate also the value to the platforms as well.

So looking ahead, I think for the value creation model, I would say it is not only like a marketplace to monetise the traffic in the marketplace, but also we can see a strong potential in the supply chain – as a result of the supply chain optimization for the manufacturer-to-consumer business, as well as the farmer-to-table business.

Yeah, for your second question, connectivity, as we always said, connectivity and openness are the core values of the internet. We strongly believe that it will be a win-win situation if all platform companies can embrace openness and connectivity in substance, and not in form. So I think for us, we will continue to promote the non-discriminatory user sharing and the consistency across platform to make sure consumers have a consistent user experience. Because today, if you are a Taobao user, you may have the experience that you want to share some product links with your friends in social platforms, the experience is really bad.

So I think this is for our mutual customers' benefit to improve the experience in the – when they try to – try to do whatever they want across ecosystems, and we will make – we are all aware, actually have already made necessary preparations for the future interconnectivity.

**Alex Yao (JP Morgan):**

**(Original)**

Good evening management, and thank you for taking my question. So during your prepared remarks, you guys mentioned that the weak revenue momentum was due to both macro and competition, and based on the e-commerce results tonight, you guys look like underperforming the industry peers in this quarter. Can you help us understand to what extent is the revenue weakness due to macro and to what extent it is due to competition? For competition, what are the areas you see the most pressure and challenge and what are the strategies to regain competitiveness in those areas? Thank you.

**Daniel Zhang:**

**(Original)**

Well, if you look at the landscape, actually today for e-commerce, the definition of e-commerce actually is evolving. So today in the market there are multi-formats of e-commerce model, and as long as you have some traffic and you have users with you and based on the publicly available third-party payment solution and the logistics and fast delivery, express deliveries, anybody can try something on e-commerce. But we strongly believe that for Taobao, our advantage is that consumer mindset, and we are purely a consumption destination for all the customers. So we will continue to develop multi features and applications in our Taobao app, at the same time to segment our user group by different mobile apps for specific value propositions.

And today if you look at the market, I will say, for all the players actually, they may address the customer's needs from one angle. But actually, for Taobao we are the only destination who

can meet the customer's different purposes. For someone who have very specific shopping purposes they can – Taobao to them is positioned to them as a shopping search, and also Taobao has a lot of applications to facilitate people to enjoy the fun of discovery. And over years, we have built our livestreaming business, as well as a short video business, and a social content business. So we are a platform with multi formats and consumer journeys for people with different purposes. I think we will continue to invest in this and to give people most comprehensive selections, and most efficient and guaranteed consumer experiences.

So as to your question about the slower GMV growth reasons, how much comes from macro conditions, how much from competition: actually, it is very difficult to quantify the impacts, I would say. So that is why we believe that these two reasons are all the factors we should consider. Actually, because we are the market leader in the retail commerce, so that is why I think our performance to some extent will reflect the overall market condition.

**Piyush Mubayi (Goldman Sachs):**

**(Original)**

Thank you for taking my question. Just looking ahead, your guidance seems to suggest you will grow between 11% and 15% to 16% in the second half of 2022. And that is a step down from the pace of growth you had in the first half. If we accept that pace as being a continuation of where we are today, so, what are you seeing that gives you the conviction that this slow pace will be maintained through the second half of 2022 fiscal? And I wonder if you could look beyond that and give us what you think is a normalized pace of growth for your business and for China GMV in general? So really focusing on growth, here, if you don't mind.

**Maggie Wu:**

**(Translation)**

Hi Piyush, this is Maggie. Let me try to answer your question. Yes, if you look at our guidance and then try to derive the second half growth for our revenue, it indicates revenue growth of – at the teens. That assumption is mainly based on the GMV growth expectation and the impact on the revenue growth is really placed in the core commerce and China retail commerce.

So we do think if you look at the total China GDP and the consumption, right, so this quarter compared to previous quarter, it comes down significantly to single digit. We see this may continue through the following quarters and we as, in size, the biggest player right now, accounts for, you know, we have approximately 8 trillion GMV<sup>10</sup> vs. 44% to 45% of the total national GMV, so the impact will be largely on us.

And if you look forward beyond this year and the following years, how we see our revenue growth, I think first of all, our revenue growth engine is already beyond China consumption, beyond the CMR. So CMR, if you look at this quarter, it accounts for around 36% of total revenue. Where it used to be over 50% several quarters ago. So this is because, you know, all of these cloud computing and international businesses, Cainiao, local services, start contributing and increase its contribution to our total revenue. So this is where we talk about multi-engine growth and continue to expect to see growth in these areas.

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<sup>10</sup> Alibaba's total GMV for the twelve months ended September 30, 2021 in China was approximately RMB 8 trillion.

At the same time, we have seen core commerce – so Daniel talked about our multi-app strategy, and talked about if we look in the mid-term, long-term, we do not believe the monetization can be purely coming from this traffic and GMV growth, but more from the infrastructure capability we are building to enable merchants. We do not have exact monetization plan to communicate at this stage. We'll share more later on. During Investor day we are also going to share with you how we measure the value creation. And eventually, this is always our theme, that once, you know, merchants stay, consumers stay, and retention rates are here and they enjoy the service, we will find out ways to monetise.

So, if you look at the investment we are making nowadays, this is our decision to invest and to move towards our target. First target is the user base of over 1 billion in China. I think in that aspect, we are pretty much on track. And then the multi-app strategy makes the engagement of these users being enhanced. And then the merchant side, we have a lot going on in terms of merchant service provision, which we will also share next month. So, the value creation and then eventually we believe the return will be there.

**Alicia Yap (Citigroup):**

**(Original)**

Hi. Good evening, management. Thanks for taking my questions. I have a question related to CMR and GMV. So, the slowdown of the CMR, is it more temporary, you know, so a function of GMV, and has CMR actually experienced slower growth than GMV in the past couple of quarters, given, you know, we have been providing many services to support merchant issue, especially given it is a tough macro? So, if GMV re-accelerates later, could CMR re-accelerate even faster since, you know, we have been still under-monetised and, you know, the way that we can further create value for merchants, we can still add on, you know, to the entire, you know, value chain for the merchants? So, any colours that you could help us on that would be great.

And also, in ways of GMV could re-accelerate, when the macro is recovering, is there any ways that we are preparing to help us capture when the macro recovers, we can actually further boost our GMV, you know, faster than the macro recovers? Thank you.

**Maggie Wu:**

**(Original)**

Thank you, Alicia. Yes, you are right, the CMR growth is actually to some extent tied to the GMV growth, and the past several quarters we have seen that CMR growth is slower than the growth of GMV, which is mainly due to our merchant support programme. So, if we add back those merchant support spendings, then the CMR growth would have been pretty much in line with the GMV growth. So eventually, if the China consumption growth recovers and GMV growth comes back and gets accelerated, we believe that CMR growth will also be consistent with the growth of GMV.

But in our view, when we look at the future revenue components, we believe that all these efforts we have been making and, you know, not only the user base expansion but also these services – look at our livestreaming, all of these, you know, second-hand and luxury products and a lot of our supplies and also user experience building exercise – will bring value to consumers. We should have new revenue streams coming into the total group revenue pie. And so, these will be the adding to our future revenue growth.

**Daniel Zhang:**

**(Original)**

Let me add a few words on the question. Actually, we always make ourselves ready for any new market opportunities and, even more, we are always trying to do anything we can to create new market opportunities. I think today, if you look at the landscape, the e-commerce actually accounts for like 20% to 25%<sup>11</sup> of the total retail, but if you look at the penetration rate by categories, actually it varies. So, I think there is still a big room to first digitalise the existing, I mean, total retail, but furthermore, it is to create the new demand by leveraging the power of technology to improve the efficiency of the supply and demand and also create the digitalised retail formats, no matter it is online or offline or integrated, to give people superior experiences to unlock the potential of consumption. So, we will always try to innovate and incubate new animals and to capture these new opportunities and even create new opportunities. Thank you.

**Yang Bai (CICC):**

**(Original)**

We have two questions. Our first question is regarding the livestreaming business. What is our current strategy in the livestreaming business? As we know that more traffic and GMV are concentrating to the top KOLs in Taobao. How should we think this trend going forward? Are we going to balance the KOLs and the traffic between the top-tier and the long-tail KOLs? Any colour would be very helpful.

And the second question is regarding to the Personal Information Protection Law impact. Are we seeing any significant impacts to our CMR business? How should we change in the future? Thank you.

**Daniel Zhang:**

**(Original)**

For your first question, for livestreaming, actually for our Taobao Livestreaming, today is very, very important applications in our mobile Taobao. And we've observed that for a lot of fans and customers, they love seeing this livestreaming format. But we do not view this livestreaming as an independent application, but part of the several applications to enable sellers to engage with the customers, through their own stores, or through the KOLs.

If you look at the ecosystem in livestreaming business, actually we do have some top players. They have very good popularity among their fans, but at the same time, we have many KOLs, second tier, third tier, and many new KOLs. And the very unique situation in Taobao mobile app, in Taobao livestreaming is the store livestreaming, which initiated by the store operator, by the sellers, even by the staff, and associate in a seller. So I think we provide a very dynamic, I mean, ecosystem in this Taobao livestreaming. And as a platform operator, we do not intend to so-call balance the traffic. Actually, we never do anything to balance the traffic, or rebalance this traffic. I think we should keep the market open to the customers. And it is their option to select which one to follow, and which one they are in favour of. But for us, we always try to

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<sup>11</sup> "Around 30%" was mistakenly stated as "20-25%".

help and incubate more and more diversified KOLs, and diversified, I mean, young stars being the sellers, and to become new generation stars.

As to your second question for the newly effective PIPL, actually we did very necessary preparation for the law, which took effect on 1st November. And based on our preliminary assessment, we do not expect PIPL will have a material impact on our business. But because this is still a very short time frame, we still need more time to assess. But so far so good. Thank you.

**Gary Yu (Morgan Stanley):**

**(Original)**

Thank you, management, for the opportunity to ask questions. I have two questions. The first one is on some of the kind of new growth business that you highlighted at the press release, including both the international business, and also the cloud computing business. How should we look at the growth outlook in the future? What kind of competitiveness are we seeing in overseas market? And particularly on cloud, is the kind of headwind from a major customer loss already behind, and therefore we should continue to see acceleration growth going forward.

My second question is related to strategic investment. How should we look at the level of investment going into fiscal 2023, given we have already achieved some early success. Should we expect – continue to step up investment in Taobao Deals and community marketplace, going into fiscal 2023? Thank you.

**Daniel Zhang:**

**(Original)**

Thank you. For the first question, today, as we said, we are taking a multi-engine growth approach to grow our business. So today, you will see that both cloud and international business show very robust growth. The cloud this quarter resumed their net growth to 33% year on year, and for international wholesale and retail business as a whole reached a year on year growth rate of 34%. So I think for both businesses today, both of them are in an early stage of development, early stage of growth. We are still trying to do the right thing to build the right infrastructure to make sure we capture the long-term opportunities, and to maintain a sustainable growth. For example, like for cloud, today we enhance our investment in technologies and products. And as I shared in my script, we announced a couple of very important technology and product upgrading in our Apsara conference this September. And this is a reflection of our continuous efforts in cloud-relevant technologies and products.

And going forward, we will continue to do so, and we believe that for cloud opportunities in China and in the world, it is not only a replacement of the existing IT infra, but instead, actually because of cloud, you get new opportunities in intelligence services. You have got new opportunities in 5G, not only for cloud, but also for network and terminal, and edge. So, we will get ourselves ready for all these new opportunities. And I think this is relevant to all the industry, all the sectors, in our economy. And not only in China, but also in many other markets in the world.

And as to the international business, today, we reported that our AAC for international market reached 285 million. I think we witness a very healthy growth, and very rapid growth. And if

you look at the penetration of e-commerce in many other markets outside China, I think still in very early stage. We strongly believe that with our perpetual technology and experiences in this sector, we are in a good position to capture this opportunity in many other markets. But as we always said, we focus on growth, but we focus on quality as well. So we focus on a sustainable growth in capturing these new opportunities. But long-term wise, we are very confident about this multi-engine growth strategy. Thank you.

**Maggie Wu:**

**(Original)**

Right. Regarding your second question on whether we will continue to invest and to what level our investment will be in the future, I think first of all we, for sure, will continue to invest while monitoring the business progress in these strategic initiative areas. So when you look at where we invest nowadays, it's user base, right, through our Taobao Deals, Taocaicai etc., and also the services, provide more services to our user base like local service segments. There are still quite a lot of potential there. And also globalization, Lazada and Trendyol, etc. These areas, I think it is not a one-year investment kind of a period, it is several years.

But there might be slight adjustments in terms of the mix of the investment. For example, we expect to achieve a billion annual active consumers in the following two quarters, and by the time we achieve that, we are going to focus more on the engagement and multi-app user growth.

So, you asked about the fiscal year 2023 investment outlook. I think we will start our business planning and budgeting session soon, so we will provide more colour and guidance later on.

**Rob Lin:**

**(Original)**

Hi everyone, this is Rob. I just wanted to make two comments from our earnings call today. First, I just wanted to make a slight error change to our script. We said double 11 GMV was 54.03 billion; it was actually 540.3 billion. That is the first note. The second, we are having our Investor Day on 16<sup>th</sup> and 17<sup>th</sup> December. We look forward to hosting you. I am sure there are a lot of questions you may still have, and we look forward to addressing all those questions on the two-day event.

Thank you. This is the end of our call today. We will pass back to the operator. Thank you.

[END OF TRANSCRIPT]